

Message Text

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ACTION FMC-01

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SUBJ: REDUCTION IN FARRELL LINES SERVICE TO AUSTRALIA

FOR FMC

1. ON JANUARY 4, 1978, FARRELL LINES, INC., MAJOR US SHIPPING LINE SERVING AUSTRALIA, ANNOUNCED THAT IT WAS WITHDRAWING A LASH VESSEL (AUSTRAL LIGHTNING) FROM ITS US/WEST COAST - AUSTRALIA RUN. THE 30,000 DWT VESSEL, CAPABLE OF CARRYING 500 CONTAINERS, IS ONE OF THREE OPERATED BY FARRELL ON THE AUSTRALIAN RUN. THE WITHDRAWAL OF THE AUSTRAL LIGHTNING FROM THE US/WEST COAST - AUSTRALIA TRADE IS DUE IN PART TO THE FREIGHT RATE WAR INITIATED BY THE NON-CONFERENCE CARRIERS, SPECIFICALLY FESCO (RUSSIAN), ACE (US) AND KARLANDER (NORWEGIAN).

2. FESCO OPERATES THREE VESSELS ON 18 SAILINGS A YEAR SCHEDULE; KARLANDER HAS THREE SHIPS WITH A 15 SAILINGS A YEAR FREQUENCY; AND ACE LINES HAS CHARTERED THREE VESSELS AND DO 15 SAILINGS A YEAR TO AUSTRALIA. THUS, THE THREE NON-CONFERENCE LINES OFFER 48 SAILINGS A YEAR. BY
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COMPARISON, THE CONFERENCE MEMBERS (COLUMBUS, PAD AND FARRELL) HAVE COLLECTIVELY 10 VESSELS WITH 50 SAILINGS A YEAR. THE CANCELLATION OF THE AUSTRAL LIGHTNING REDUCES THE CONFERENCE'S US SAILINGS TO 45 A YEAR.

3. COMMENT: WHILE SHIPPING OPERATORS REPORT THE

TRADE BETWEEN THE US WEST COAST AND AUSTRALIA IS SEVERELY OVER-TONNAGED, THE PROXIMATE CAUSE OF THE FARRELL VESSEL'S WITHDRAWAL IS THE IMPACT BEING MADE BY FESCO, THE SOVIET SHIPPING LINE. SINCE MAY 1977, WHEN FESCO REVERSED ITS ROUTE SCHEDULE (FROM WEST COAST - JAPAN - MANILA - AUSTRALIA - WEST COAST TO WEST COAST - AUSTRALIA - MANILA - JAPAN - WEST COAST), IT HAS INITIATED A FREIGHT RATE WAR THAT HAS ATTRACTED A NUMBER OF US SHIPPERS, SEVERAL SERVICING MAJOR US CORPORATIONS. THE AIM OF FESCO APPEARS TO BE TO CAPTURE A HEALTHY SHARE OF THE WEST COAST-AUSTRALIA TRADE. IN ITS DRIVE TO MAKE INROADS INTO THE MARKET, FESCO IS "CREAMING" THE FREIGHT MARKET, LEAVING THE UNDESIRABLE CARGO FOR THE CONFERENCE LINES. MOREOVER, IN ITS MARKET DRIVE FESCO IS OFFERING RATES 20 PERCENT BELOW THE ACCEPTED CONFERENCE LEVEL. THE COMBINATION OF THE FOREGOING HAS PROMPTED THE MAJOR US FLAG LINES TO DECREASE SAILINGS TO AUSTRALIA. THE POSSIBLE LOSS IN REVENUE TO FARRELL LINES IN ONE YEAR COULD AMOUNT TO 10 MILLION DOLLARS. IN ADDITION, THE WITHDRAWAL MEANS THE LOSS OF 850 REFRIGERATED CONTAINERS FROM THE AUSTRALIA/US TRADE. THIS COMES AT A TIME WHEN THE US HAS SLIGHTLY INCREASED ITS ALLOCATION TO AUSTRALIA FOR MEAT IMPORTS. THE GAINER IN THIS VACUUM WILL BE FESCO AND THE SOVIET MARITIME INDUSTRY, WHICH CAN CONTINUE TO ENGAGE IN PRICE LIMITED OFFICIAL USE

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WARS WITHOUT THE CONSTRAINT OF A PROFIT AND LOSS STATEMENT IN HARD CURRENCY. WITH DEPRECIATION AND MOST WAGES CALCULATED IN NON-CONVERTIBLE RUBLES, THE SOVIETS HAVE AN ECONOMIC AS WELL AS POLITICAL INCENTIVE TO MAXIMIZE THEIR MARKET SHARE OF SHIPPING BETWEEN HARD CURRENCY COUNTRIES.

4. FYI. MR. PETER NIXON, FEDERAL MINISTER FOR TRANSPORT, WILL BE VISITING THE US IN JANUARY. ACCORDING TO THE FARRELL LINES REPRESENTATIVE IN SYDNEY, NIXON HAS SCHEDULED AN APPOINTMENT WITH SECRETARY ADAMS ON JANUARY 27. IN ADDITION, HE WILL MEET WITH FARRELL LINES PRESIDENT ON JANUARY 28. DURING THESE MEETINGS, HE IS EXPECTED TO DISCUSS THE INROADS BEPP MADE BY THE SOVIET MERCHANT MARINE INDUSTRY.
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